UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL ADJUSTMENT ADMINISTRATION
WASHINGTON, D.C.

AGRICULTURE AND THE CONSUMER

By Rexford G. Tugwell, *Assistant Secretary of Agriculture*

The necessity of considering the needs of consumers and using their ability to satisfy such needs as a criterion for judging the present national program appears nowhere more strikingly than in the efforts to rehabilitate our agriculture. The Agricultural Adjustment Program has from the first recognized the necessity of protecting consumers, not simply as a matter of justice to the general public, but as an aid to farm relief itself.

Before the World War, American farmers were relatively as well off as our industrial workers. The war demand led to greatly expanded farm production, but after the war the markets for this increased output fell away drastically. This caused a severe disparity between prices of farm products and prices of other products, and reduced farm incomes greatly. Even at the crest of the business cycle in 1929, farm products could be exchanged for only 91 percent as much of other products on the average as they could have been exchanged for in the period before the war. During the depression, the disparity grew. By February 1933 the exchange value of farm products for industrial goods had fallen to 50 percent of the pre-war average. Their exchange value for taxes and credits was even less. The disparity was present in the price of every farm product. It was most severe in the export commodities, such as cotton, wheat, hog products, and tobacco, where the disappearance or the severe contraction of export demand had built up great excess stocks of commodities.

The immediate cause of this disparity was the pressure of surpluses of farm products on the markets.

Many persons have wondered why the Government should be concerned with reducing the production of farm products when there are people who must depend on public relief for food and clothing and who are reduced to a bare minimum of both. To some extent it is true that the disposal of agricultural surpluses is closely related to the consumer purchasing power, and the prices of many farm products are directly dependent on factory pay rolls. But, paradoxically enough, the very existence of a glut of farm products has been one of the important causes of the lack of consumer purchasing power.

The pressure of abnormal supplies on the market tends to upset the delicate balance of price and income relationships. When too much cotton and wheat and pork are forced into trade channels prices received by farmers dwindle to levels so low that they themselves cannot buy the goods which city workers manufacture. The result is that factories close down and employees are thrown out of work. They in turn are unable to buy the products of other city workers, who also lose their jobs. When the other factors tending to slow up business activity join in there follows the whole vicious downward spiral with unemployment, falling prices, bank failures, business bankruptcies, hunger, and suffering. Millions of people, unable to support themselves, are compelled to depend on public support. The Nation's economic machine, gorged with an excess of farm and other products, breaks down just as surely as a human stomach gets acute indigestion if too much food is forced into it or if the food is of the wrong sort.

Something like the foregoing is what has happened in the last few years. For a variety of reasons—among them the failure of many of our foreign markets—the exchange relationship between the supply of farm products and the demand for them was deranged. Consider wheat, for instance. If every person in the United States had all the wheat he could possibly eat, there would still have been a surplus as long as production continued at the same rate as in the last few years. With no one to buy this surplus and with foreign markets sharply limited, the supplies of wheat piled up in elevators and storehouses, and the carry-over attained huge and unprecedented totals. Prices fell to the lowest levels in history. Consumers, who could or would eat only a certain amount of wheat, had but a slight advantage from this surplus. Millers and bakers obtained their wheat at a much lower figure than before, but since flour is only a minor part of the cost of bread, the retail price was but little affected. Over against this small temporary benefit felt by consumers was the serious injury done to them ultimately through the maladjustment

of the whole price structure and the dislocation of exchange relationships between farmers and city workers.

And when prosperity returns, the amount of wheat which people eat is not likely to be greater, and may even be less, than it has been during the depression. This is because when people's purchasing power increases they eat more of other food products which are part of a balanced diet or which they turn to when their incomes are greater. It is not difficult to follow the reasoning that surpluses of farm products have actually contributed to the dependence upon relief; at any rate, it is because of the series of maladjustments initiated by the overproduction of farm products that the Government has undertaken to assist in the control of their production. This adjusted production, on the one hand, and restored buying power at home and abroad, on the other, stood out as absolutely indispensable to agricultural recovery. The recovery program for agriculture was based upon these twin requirements.

Congress provided the means for dealing with adjusted production in the Agricultural Adjustment Act. Its stated purpose was to promote the prosperity of the farmer by returning to him a fair share of the national income and to foster national recovery by making the farmer as good a customer for nonagricultural industries and services as he was before the World War.

The Act states that it is the policy of Congress to approach parity for the farmer at as rapid a rate as is feasible in view of the current consumptive demand in domestic and foreign markets. In other words, consumer needs are to be the gage of the rate at which inequalities in purchasing power are to be corrected. That is, the whole Agricultural Adjustment program must be regulated by the consumer demand for agricultural commodities. It is evident that the act implicitly requires close study of and decisions based upon the actual or potential effect on consumers of every aspect of the program.

It is obvious that no power could raise and maintain prices of many important agricultural commodities whose carry-over stocks were several times normal, until the surpluses had been reduced or eliminated. Furthermore, suddenly pushing up the price of certain commodities, which have been long depressed, before making adequate provision for control of production, would bring in new production from less profitable fields and result in new surpluses which would make it difficult or impossible to maintain the desired level of prices and would thus defeat the purpose of the Act.

It was also recognized that a hasty scaling up of prices would in some instances disrupt consumer-producer relations and would actually reduce consumption to an extent that would do more harm than good to agricultural producers. A reasonable relationship must be maintained between prices and effective demand. Raising prices too rapidly would reduce the purchasing power of consumers and impede national recovery.

The Agricultural Adjustment Act provides for an attack on the problem of the surplus, recognizing this to be the most important problem standing in the way of farm recovery. Ordinarily, the producers would attend to the matter themselves, but circumstances prevent that. Often there is no escape from the farm, except into the ranks of the unemployed; and low prices compel competing producers to maintain the volume of their output. Farm production in the United States has not changed much since 1924, although the demand has fallen greatly. The only remedy is concerted action under central guidance, a course provided for in the law by several methods, which include the leasing of land, the payment of cash compensation in return for output reductions, the cotton option plan, and marketing agreements to regulate production, distribution, and prices. The Act also makes provision for processing taxes, a means of raising revenue to help accomplish adjustment of production through benefit payments to cooperating producers. The benefit payments are themselves a direct contribution to the incomes of the cooperating farmers.

Along with the crop-reduction program, the Act authorizes efforts to obtain for farmers a larger share of the consumer's dollar. Part of the consumer's dollar now goes to support wasteful and unnecessary competition, duplication of selling expense, a needless multiplicity of services to consumers, dubious credit arrangements, and various unethical practices. Eliminating these wastes should mean better conditions for honest and efficient business, as well as better prices for producers.

Thus, the law provides the conditions for an agricultural industry in which the forces of production are so managed as not to outdistance the demand, and to increase the demand by redistributing purchasing power so that consumers can come more readily into the market. It is a gigantic job, requiring delicate skill in judgment and a technique of administration which we are only beginning to master.

U. S. GOVERNMENT PRINTING OFFICE: 1934